

**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
CLERK**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE GALLATIN COUNTY CLERK

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Gallatin County Clerk's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$25,575 from the prior year, resulting in excess fees of \$65,926 as of December 31, 2008. Revenues decreased by \$205,946 from the prior year and expenditures decreased by \$231,522.

Report Comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

Deposits:

The County Clerk's deposits were insured and collateralized by bank securities.

CONTENTS

INDEPENDENT AUDITOR’S REPORT	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
NOTES TO FINANCIAL STATEMENT	6
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11
COMMENT AND RECOMMENDATION	15



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenny French, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Gallatin County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the County Clerk for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2009 on our consideration of the Gallatin County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Kenny French, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Gallatin County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 11, 2009

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

State Fees For Services	\$	2,557	
Revenue Supplement			60,610
Fiscal Court			19,640
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	298,449	
Usage Tax		443,037	
Tangible Personal Property Tax		660,784	
Other-			
Fish and Game Licenses		7,539	
Marriage Licenses		2,343	
Deed Transfer Tax		20,425	
Delinquent Tax		119,772	1,552,349
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts		5,776	
Real Estate Mortgages		13,888	
Chattel Mortgages and Financing Statements		21,074	
Powers of Attorney		510	
Affordable Housing Trust		12,714	
All Other Recordings		12,333	
Charges for Other Services-			
Candidate Filing Fees		1,330	
Copywork		3,760	71,385
Other:			
Miscellaneous			5,770
Interest Earned			919
Total Revenues			1,713,230

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$ 219,348	
Usage Tax	428,653	
Tangible Personal Property Tax	233,962	

Licenses, Taxes, and Fees-

Fish and Game Licenses	7,400	
Delinquent Tax	11,186	
Legal Process Tax	8,037	
Affordable Housing Trust	12,594	\$ 921,180

Payments to Fiscal Court:

Tangible Personal Property Tax	72,116	
Delinquent Tax	12,642	
Deed Transfer Tax	19,404	104,162

Payments to Other Districts:

Tangible Personal Property Tax	322,736	
Delinquent Tax	66,630	389,366

Payments to Sheriff 665

Payments to County Attorney 17,075

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies Salaries	84,787	
Part-Time Salaries	1,438	
Overtime	496	

Employee Benefits-

Employer's Share Social Security	11,704	
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Contracted Services-

Advertising	244	
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Materials and Supplies-

Office Supplies	5,194	
Election Expense	8,773	

GALLATIN COUNTY
 TRACY MILES, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay:(Continued)

Other Charges-			
Conventions and Travel	\$	3,484	
Dues		400	
Postage		3,193	
Computer Service		6,198	
Telephone		2,997	
Preparing Tax Bills		956	
Refunds		22	
Copier Lease		4,471	
Miscellaneous		1,954	
Capital Outlay-			
Office Equipment		2,687	\$ 138,998
Total Expenditures			<u>\$ 1,571,446</u>
Net Revenues			141,784
Less: Statutory Maximum			<u>68,733</u>
Excess Fees			73,051
Less: Expense Allowance		3,600	
Training Incentive Benefit		<u>3,525</u>	<u>7,125</u>
Excess Fees Due County for 2008			65,926
Payments to Fiscal Court - March 11, 2008		10,000	
March 13, 2009		<u>55,926</u>	<u>65,926</u>
Balance Due Fiscal Court			<u><u>\$ 0</u></u>

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Gallatin County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The Gallatin County Clerk does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The Gallatin County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$16,449. Funds totaling \$0 were expended during the year. The unexpended grant balance was \$16,449 as of December 31, 2008.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 5.

The office of the County Clerk is committed to a lease agreement with Modern Office Methods for a copier. The agreement requires a monthly payment of \$198 for 60 months to be completed on November 1, 2009. The total balance of the agreement as of December 31, 2008, was \$1,401.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kenny French, Gallatin County Judge/Executive
The Honorable Tracy Miles, Gallatin County Clerk
Members of the Gallatin County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Gallatin County Clerk for the year ended December 31, 2008, and have issued our report thereon dated September 11, 2009. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Clerk's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the County Clerk's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County Clerk's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting as for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we considered the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County Clerk's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Gallatin County Clerk's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Gallatin County Fiscal Court, and the Department for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 11, 2009

COMMENT AND RECOMMENDATION

GALLATIN COUNTY
TRACY MILES, COUNTY CLERK
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2008

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The County Clerk's Office Lacks Adequate Segregation Of Duties Over Disbursements

The County Clerk's office has a lack of segregation of duties over disbursements. The Clerk is responsible for approving all purchases preparing and signing most disbursement checks, posting to the ledger, as well as, handling non-sufficient funds and voided checks. In addition, the clerk is responsible for reconciling the bank statement. We recommend the clerk assign maintaining the disbursements to a Deputy Clerk, not responsible for receipts, while the Clerk continues to perform the bank reconciliation. If another employee is responsible for maintaining disbursements and the associated ledger, the Clerk could implement the following practices:

- The Clerk could periodically compare the invoices to payment, documenting this by initialing the invoice;
- The Clerk could require dual signatures on all disbursement checks, with one required signature being that of the clerk;
- The Clerk could compare the balance in the checkbook to the bank reconciliation, documenting this action by initialing the checkbook balance.

County Clerk's Response: I will start having a deputy sign checks also. I will have a deputy reconcile the bank statements. I will have a deputy compare the invoices by initialing.

